



HAZARD MITIGATION

Disaster loans to repair or replace real property or leasehold improvements may be increased by as much as 20 percent to protect the damaged property from possible future disasters by taking necessary or appropriate protective (mitigating) measures.

The term *Hazard Mitigation* applies to any protective measure(s) or device(s) incorporated into a disaster damage repair project.. The *Hazard Mitigation* proposal must protect or mitigate against damage from the same type of occurrence as the declared disaster (e.g., protection against future flood damage when the disaster was a flood).

The 20 percent limit is based on the full loan amount excluding funding for refinancing or economic injury. Thus, the maximum possible amount of a disaster home loan is \$488,000 (\$200,000 for Real Estate damage, \$40,000 for Personal Property damage, \$48,000 for mitigation, and \$200,000 for refinancing). For business loans, the 20% limitation is subject to the \$1,500,000 legislative limit.

The Borrower may propose more than one mitigation measure or device. The specific measure or device requested can vary depending on the type of disaster. Some of these devices or measures may include:

Floods / Erosion

- Grading or contouring of land
- Relocating utilities or mechanical equipment
- Elevating structures, retaining walls

Earthquakes

- Foundation bolts and reinforcement
- Tie-downs, framing anchors, and shear walls
- Strapping of water heaters and other mechanical equipment

Hurricanes / Typhoons

- Bolting mud sills to foundations
- Hurricane ties
- Window shutters

Wildfires

- Fire resistant roof covering
- Sprinkler systems
- Clearing trees and vegetation around structures

When discussing mitigation measures or proposals with an Applicant (or Borrower), the Loss Verifier should not recommend any particular measure or comment on the relative merits of one measure as compared to another. However, the Loss Verifier should ensure that the Borrower is informed of their options. Examples of possible mitigation measures can be mentioned as a way of explaining the objectives of the mitigation program as long as no one measure or device is recommended or advocated. **The Loss Verifier should avoid substituting their judgement for that of the Borrower and/or their engineer.**

The Borrower is required to submit a proposal describing the mitigation measure to be installed along with a cost estimate. The proposal and cost estimate should provide sufficient information to be reviewed by the Loss Verification department. It does not have to be engineering drawings and specifications accompanied by a detailed cost estimate.

When the proposal and costs have been submitted by the Borrower, it is the responsibility of the Loss Verification Department to evaluate the proposal based on **need** and **appropriateness**.

WHAT IS NEED AND APPROPRIATENESS?

The mere fact that the subject property has been visited by the hazard at least once is not necessarily evidence of **need**. If a property damaged in a flood is in a flood hazard zone or has a history of previous flooding, it may be logical to find **need** for mitigation measures. However, if the property sits on high dry ground, well out of the flood plain, but was severely damaged when a tree fell down diverting a flow of water and undermining the foundation, then it was subject to an act that has very little probability of occurring again. There may be no **need** for mitigation in this case.

Defining an **appropriate** measure or device is somewhat more elusive. In some cases there may be a significant cost difference between a measure that will adequately achieve the mitigation and a measure that the Borrower wishes to take.

In general, the Loss Verifier's determination on the **need** and **appropriateness** of a mitigation proposal should be based on common sense and the facts of each case. Costs can be allowed to provide a long-term practical solution to mitigate against the possibility of similar disaster related damage in the future. The SBA funds should not be used for predominantly cosmetic improvements.

As an example, assume a determination has been made that there is a logical **need** for a seawall to protect the property. The Borrower proposes to use concrete pilings to construct the seawall at a cost of \$15,000. The 20% increase allows a maximum of \$10,000 for the measure and the Borrower is willing and able to provide the additional \$5,000. The Loss Verifier determines that the proposal is appropriate. The Loss Verifier will then complete the Hazard Mitigation Report showing the cost of the mitigation measure at \$15,000. The Loss Verifier should include comments such as *"Borrower's proposal is reasonable. Borrower willing to cover \$5000 shortfall."* The Loan Officer would then determine if it is necessary to condition the loan for the shortfall to be injected prior to Agency funds.

HAZARD MITIGATION

In another example, it is determined that a concrete retaining wall costing \$8,000 is needed to mitigate future landslides. However, the Borrower wants to add a brick face on the wall for cosmetic reasons at an additional cost of \$5,000 rather than a typical/standard finish.

In this case, the Loss Verifier should determine that the brick face does not serve any practical purpose and it would not be **appropriate** to fund a cosmetic improvement with Agency funds. The Borrower should fund the amount for cosmetic purposes. The Loss Verifier should complete the Hazard Mitigation Report showing the cost of the mitigation measure at \$8,000 and comment accordingly.

HAZARD MITIGATION DURING ORIGINAL ON-SITE

A hazard mitigation request should not be completed during the original on-site inspection. However, if the Applicant provides a Hazard Mitigation proposal and cost estimate at the time of the original on-site inspection, the Loss Verifier should consult the Field Chief Verifier/Loss Verifier in Charge and complete the Hazard Mitigation Action in conjunction with the original verification report.

REVIEWING THE MITIGATION PROPOSAL

Because of the subjective nature of the review of Hazard Mitigation proposals, the Loss Verifier should consult with their Team Leader or Field Chief if in doubt.

It is the responsibility of the Loss Verifier to review the Borrower's hazard mitigation proposal and estimate the cost of measure without regard to the 20% program limit. Once the verification department has reviewed and approved the Borrower's proposed hazard mitigation measures(s), the processing Loan Officer will determine the *eligible* amount the loan may be increased for hazard mitigation. Eligibility for hazard mitigation funding is not transferable to a relocation property.

CODE REQUIRED UPGRADES

In some circumstances local building codes will require preventive corrective measures to be done along with disaster repairs as a condition of obtaining a building permit. These code required upgrades are often mitigation type improvements. The total cost of these code required devices or measures is fully eligible as a verified loss. When this arises the Loss Verifier should not complete a Hazard Mitigation Action unless the total cost will exceed the \$200,000 SBA real estate maximum. In such cases the shortfall of costs for the code required upgrades should be addressed under the Hazard Mitigation program.

ALTERNATE USE OF PROCEEDS FOR HAZARD MITIGATION

The Borrower may also request that all, or a portion of SBA loan eligibility be re-allocated towards the cost of the mitigation measures. This is known as an Alternate Use of Proceeds (A.U.O.P.) and is permissible to cover mitigation measures. However, as with all requests for alternate uses of eligibility, approval should be contingent upon our conclusion that sufficient repairs can be made to make the damaged property reasonably usable. All alternate Use of Proceed recommendations should be discussed with Supervisors.

PROTECTIVE DEVICES THAT ARE NECESSARY AS THE ONLY FEASIBLE OR PRACTICAL METHOD OF REPAIR

In some cases the installation of hazard mitigation type devices may be eligible as a verified loss. If the devices or measures did not exist prior to the disaster, but are absolutely necessary to repair or restore property damaged or destroyed by the disaster, the full cost is eligible if:

- We receive written evidence from a professional third party (such as an engineer's report) which clearly establishes the necessity for the device or measure (opinions from real estate agents, insurance adjusters and the like should not be considered) **AND**
- It is the only feasible or practical method of repairing or restoring disaster damage to land, land improvements or structures, **AND**
- It prevents immediate and continuing danger or serious damages to structures (not land and land improvements).

If the Loss Verifier observes disaster damages during the original on-site that may require such a necessary device or measure, then the appropriate comments should be included in your report describing the damage observed. Also include a reasonable allowance for the Applicant to obtain a professional third party report.

RESERVED